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UNCLAS SECTION 01 OF 02 MAPUTO 001528

SIPDIS

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AF/S FOR HTREGER AND JMALONEY
JOHANNESBURG FSC FOR RDONOVAN
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SUBJECT: MOZAMBIQUE - OCTOBER ECONOMIC DIGEST

REF: A. A) MAPUTO 1517

1B. B) MAPUTO 1463
1C. C) MAPUTO 866

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11. This is a brief summary of significant economic developments in Mozambique during October 2005. We provide it as a supplement to our other reporting. The items discussed are:

12. 800,000 people face food shortages due to drought
13. Water projects planned
14. Fuel prices rise
15. Deadline for overdue social security contributions
16. INSS Chairman resigns
17. Asian and European poultry imports banned
18. Germany and EU finance Inhambane development
19. French firm has invested USD 37 million in prawn farm

800,000 FACE FOOD SHORTAGES DUE TO DROUGHT

12. On October 28 Mozambique's Food and Nutritional Security Technical Secretariat (SETSAN) announced that 801,000 (about 4 percent of the population) faced the risk of severe hunger until next March, when the next harvest is expected, due to the prolonged drought over much of Mozambique. This is a substantial increase from May, when SETSAN estimated 428,000 faced food insecurity. The worst affected areas of the country are in the south and center, with Tete the most affected province; SETSAN's recent survey counted 198,000 drought-affected people there. After Tete, the southern provinces of Gaza and Inhambane, with 146,000 and 119,000 drought-affected people respectively, were the next worst off. In many rural districts in these provinces food prices have risen by 30-100 percent. One contributing factor to water shortages is that pumps and wells in many areas have not been maintained; SETSAN found half of the pumps broken in some areas. According to Prime Minister Diogo, the 2005 grain harvest of 1.9 million tons was five percent below the 2004 harvest. See reftels A and B for additional information.

WATER PROJECTS PLANNED

¶3. The Public Works Ministry is in the process of finalizing contract negotiations for the construction of 20 small dams in Gaza, Inhambane, Sofala, Manica and Tete provinces. The dams are intended to reduce the impact of droughts in these drought-prone areas. The government intends also to increase the number of Mozambicans with access to safe drinking water and basic sanitation services. According to the ministry, only 40% of rural and 36% of urban Mozambicans have access to clean drinking water. The goal is to raise those numbers to 55% and 60% over the next four years. Mozambique's Minister of Public Works, Felicio Zacarias, made the announcement on October 24, at the inauguration of a rehabilitated water supply system in the town of Namaacha, on the border with Swaziland. The rehabilitation cost nearly USD 1.5 million, partially funded with a World Bank loan and partially with the government's own funds. The system now serves 18,000 Mozambicans in Namaacha and approximately 12,000 people in Lomaasha, in Swaziland. A private operator, Aqua Gest, won the public tender to manage the system on a five-year contract.

FUEL PRICES RISE

¶4. After not adjusting fuel prices since June (see reftel C), on October 20 the Mozambican government increased fuel prices by up to 20 percent. The price of kerosene increased the least - by only 9.7%, followed by diesel - 10.3%, LPG cooking gas - 11.6%, petrol - 16.9% and jet fuel - 20%. Until this year, the government's practice had been to evaluate fuel prices every month and adjust them when the price of imports moved by more than three percent. In the face of a strong upward trend in world fuel prices this year, however, the GRM has delayed price increases, but has now boosted them sharply to bring them in line with world levels.

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EMPLOYERS EVADING SOCIAL SECURITY OBLIGATIONS GIVEN UNTIL MARCH 2006

¶5. In an effort to collect USD 1.6 million in overdue social security contributions, on October 31 the National Social Security Institute (INSS) announced that employers had until March of 2006 to make their owed payments. Of the 16,384 companies registered with INSS in December 2004, only 8,402 are current with contributions. As a result, only 163,582 workers are currently eligible to draw benefits out of the 542,582 workers registered under the social security system. Companies that pay their social security debts prior to March 2006 will only be charged with paying ten percent of their debt interest. It is not yet clear what will happen to those companies that refuse to comply with the March deadline.

INSS CHAIRMAN RESIGNS

¶6. Meanwhile, on October 26 the chairman of the board of INSS, Aguiar Mazula, resigned. The government has been reshuffling senior management at INSS for the past several months over mismanagement and corruption claims, beginning with the sacking of the INSS Executive Director Elina Gomes in August, and Mazula may have seen his dismissal coming, too. Mazula held a number of prominent positions under former President Chissano -- including Minister of State Administration, Minister of Defense, and Minister of Labor.

ASIAN AND EUROPEAN POULTRY IMPORTS BANNED DUE TO AVIAN FLU

¶7. On October 27 Mozambican government livestock authorities renewed their ban on Asian poultry imports and extended this ban to imports from all European countries as

the result of recently recorded bird flu outbreaks. This will not eliminate the possibility of migratory birds carrying the virulent H5N1 virus to Mozambique, however. For this reason, the National Livestock Directorate is training agricultural workers to observe domestic poultry for unusual die-offs. There is great concern that should H5N1 spread to Southern Africa, the millions of individuals living with immune systems compromised by HIV will increase the likelihood that the virus will mutate into a form transmittable from person to person.

GERMANY AND EU TO FINANCE INHAMBALE DEVELOPMENT

¶ 18. On October 26 the European Commission announced in Maputo that Germany and the EU will finance a USD 9.7 million rural development project in Inhambane province. The project is in support of the GRM's stated goal of decentralization in that it will create a "Rural Development Investment Fund," which will be managed by the Inhambane provincial government. Germany is contributing three-fourths of the funding through the German Development Bank, KFW. KFW completed a feasibility study for this project in 2004. The purpose of the project is described as poverty reduction in Inhambane through improved public, social and economic infrastructures, and through the strengthening of government and administrative structures.

FRENCH COMPANY, AQUAPESCA, HAS INVESTED USD 37 MILLION IN PRAWN FARM

¶ 19. Aquapesca, a French company, has invested approximately USD 37 million over the past eight years in its prawn aquaculture farm at Inhassunge in Zambezia province, according to press reports on October 25. The prawn farm, which started on a 20-hectare plot in 1998, now covers 320 hectares. Aquapesca has so far produced 300 tons of prawns this year and hopes to expand production to 1,200 - 1,700 tons in 2007. The company employs 700 Mozambicans.

Dudley